Office of the
Auditor General
of British Columbia

March 2023

Fraud Risk and Financial Statements: B.C. Public Sector, Part 1

An information report

Office of the
Auditor General
of British Columbia

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The Honourable Raj Chouhan
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the information report, *Fraud Risk and Financial Statements: B.C. Public Sector, Part 1*.

The purpose of this report is to outline management's responsibility for fraud risk management and the auditor's responsibility to assess the risk that the financial statements may be misstated due to fraud. It includes questionnaire responses gathered for use in planning the 2022/23 audit of the Province of B.C.'s summary financial statements.

We have issued this report under section 11(8) of the *Auditor General Act*. The information in this report has not been audited and does not assess the effectiveness of fraud risk management practices on the part of the government or the broader public sector..

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.

March 2023

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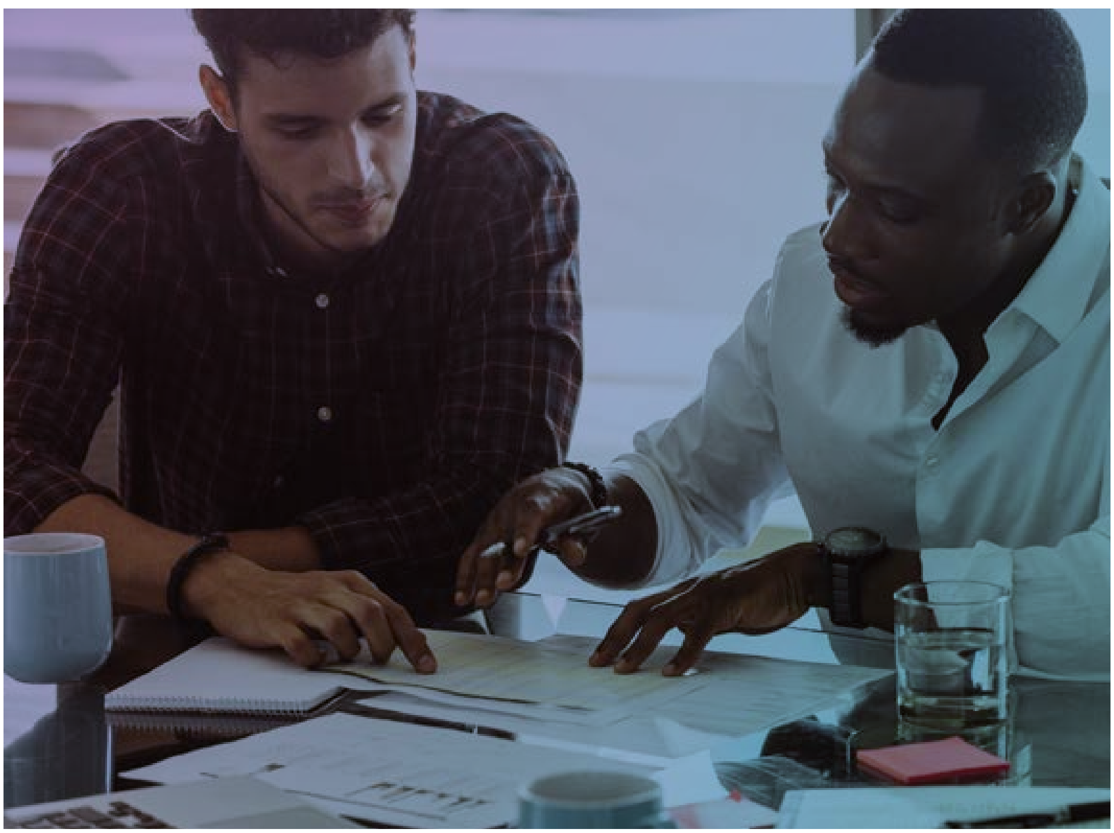

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The Office of the Auditor General of British Columbia acknowledges with respect that we conduct our work on Coast Salish territories, primarily on the traditional lands of the Lekwungen people (Esquimalt and Songhees Nations).

Report at a glance

Why we did this work

- As auditors of the Province of B.C.'s summary financial statements, we must assess the risk of material misstatements due to fraud or error.
- The risk of material misstatements due to fraud depends on potential exposure and preventing, detecting, and responding to fraud.
- This year, we sent a fraud risk management questionnaire to 23 significant public sector organizations to help us plan our audit of the province's 2022/23 summary financial statements.

About our report

- We outline public sector organizations' responsibility for fraud prevention and detection, and the auditor's role in assessing the risk of misstatements due to fraud.
- A summary of fraud risk management questionnaire responses is included, offering MLAs insight on fraud risk management in the public sector.
- Questionnaire responses are unaudited and do not identify specific organizations.
- Responses were provided to auditors to aid financial statement audit planning.
- This report is focused on Crown organizations, post-secondary institutions, school districts, health authorities and associations. Another report this year will look at ministries.

Financial statements

Management's responsibilities

- Prepare financial statements in accordance with Canadian generally accepted accounting principles.
- Establish and maintain effective internal controls to ensure the integrity of financial information.
- Identify and ensure compliance with relevant laws and regulations.

Auditor's responsibilities

- Obtain reasonable, but not absolute, assurance about whether financial statements are:
  - Prepared in accordance with Canadian generally accepted accounting principles.
  - Free of material misstatements resulting from fraud or error.

Fraud

Management's responsibilities

- Prevent and detect fraud.
- Determine appropriate responses to identified frauds, including whether to contact external authorities (e.g., police, regulatory bodies).

Auditor's responsibilities

- In audit planning, assess the risk of material misstatement in the organization's financial statements.
- Consider the impact of the assessed risk of material misstatement due to fraud on the audit approach.
- Evaluate the audit evidence and determine how the audit is affected by any material misstatement due to fraud.
- Communicate suspected fraud to the appropriate level of management.
- Communicate suspected fraud involving management to the organization's board of directors (or similar body).

Report at a glance *(continued)*

Fraud risk questionnaire highlights

Understanding fraud risk

- 61 per cent of organizations were affected by at least one type of fraud in the past year, most commonly:
  - Theft of physical assets (43 per cent)
  - Misappropriation of company funds (22 per cent)
  - Information theft (17 per cent)
  - Regulatory or compliance breach (17 per cent)
  - Internal financial fraud (17 per cent)
- Only 17 per cent said they had a high vulnerability to any type of fraud.
- 74 per cent described their organization's vulnerability to theft of physical assets as low despite 43 per cent having reported this type of loss in the past year.

Fraud risk governance

- 9 per cent of organizations said they had not assigned responsibility for fraud risk management to a member of senior management.
- 35 per cent of organizations said they did not have a policy devoted to fraud risk management but had other policies that referred to fraud risk management.
- One organization did not have any fraud risk management policies.
- 22 per cent of organizations said they have not assessed the need for fraud risk management training for staff.

Assessing fraud risk

- 39 per cent of organizations said they do not have processes to identify and document ongoing fraud risks.

Fraud prevention, detection, and investigation

- 17 per cent of organizations said that they had not established a compliance monitoring and reporting function.
- 17 per cent of organizations said that they had not assessed the need for a fraud hotline to report incidents of non-compliance or fraud.
- 9 per cent of organizations said that they had not established policies and procedures to follow when potential incidents of fraud are identified.

Monitoring and evaluating fraud risk management

- One organization said that they did not have all incidents of fraud and corrective actions reviewed by senior executive and senior management.
- 43 per cent of organizations said that they had not established a schedule to perform fraud risk management evaluations.

After reading the report, you may want to ask the following questions of government:

1. What are government's expectations for fraud risk management within public sector organizations?
2. How does government monitor, manage and respond to fraud risk within public sector organizations?
3. For organizations that have said they do not have one or more elements of fraud risk management in place, how will government assess the impact on the summary financial statements?

Background

The Province of British Columbia's summary financial statements include the annual financial activities of ministries, Crown corporations, school districts, universities, colleges, institutes, and health organizations.

The *Auditor General Act* states that each year the auditor general must report to the legislative assembly on whether the financial statements are presented fairly in accordance with generally accepted accounting principles.

The auditor general also issues a yearly Financial Statement Audit Coverage Plan indicating which organizations the office plans to audit directly and which will be audited by other auditors ("component auditors").

Auditors plan and perform their audits of financial statements to obtain reasonable assurance that they are free of material misstatements, whether caused by error or fraud. The auditor general determines whether material misstatements identified at a public sector organization result in a material misstatement in the summary financial statements.

To help determine the risk of material misstatement due to fraud in the 2022/23 summary financial statements, the auditor general's office sent a fraud risk management questionnaire to 23 public sector organizations including Crown organizations, post-secondary institutions, school districts, and health authorities.

We are reporting summary information obtained from our fraud risk management questionnaire, while our audit is ongoing, as it provides further insight into fraud risk management in the public sector. We have not audited or reviewed the information provided by respondents nor have we performed procedures to verify its accuracy or completeness. We do not provide any assurance on the information provided in this report.

The 23 organizations that received the questionnaire (Appendix B) were selected because of their significance to the summary financial statements. Twenty-one of the 23 organizations have assets or expenditures above $600 million. We also selected two large school districts because of the overall significance of the education sector. In 2021/22, the 23 organizations made up more than 86 per cent of the assets of all public sector organizations (not including ministries).

We perform the financial statement audit of five of these organizations. The financial statements of the remaining 18 organizations are audited by component auditors. The individual responses from these organizations are key pieces of information that the auditors of these organizations use in planning their 2022/23 financial statement audits.

It's useful to consider scenarios that an auditor may encounter regarding fraud. Three scenarios are provided throughout the report as examples of the types of fraud that may occur, and the related responsibilities of management and auditors.

Fraud scenario 1

A Crown organization discovers that a former employee made personal purchases on one of the organization's purchase cards. The balance on the card has been paid, and the organization is unlikely to recover the value of the purchases from the former employee. This is fraud — an intentional act committed by someone using deception (using the purchase card for inappropriate purchases) to gain a financial advantage.

Impact

There should be very little impact on the financial statements. The organization's processes identified the fraud, albeit after the employee had left the organization. The auditor should follow up with management to determine whether inappropriate purchases are common, and how management addresses them when they occur. The transactions should have been properly expensed in the organization's accounts and the fraud should not lead to a material misstatement of the financial statements.

Fraud risk and financial statements

Fraud may impact an organization's financial statements in many ways. Misrepresenting financial information is the most direct way. For example, organizations may record revenue fraudulently by creating sales to fictitious customers to improve financial results.

Organizations can also have materially misstated financial statements if they have been the victim of fraud from outside the organization. If an organization has suffered a significant fraud loss without realizing it — and therefore has not recorded the loss — their financial statements will be misstated.

Any organization is at risk of fraud. Public sector organizations are responsible for managing fraud risks and auditors must consider the risk of a material misstatement of financial information, whether due to fraud or error, in their audit approach.

Canadian Auditing Standards define **fraud** as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

A **material misstatement** is a significant error or omission that, if uncorrected, could mislead users of financial statements.

Management's responsibilities

Financial statements

The management of an organization is responsible for:

- Preparing financial statements in accordance with generally accepted accounting principles.
- Establishing and maintaining an effective system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- Identifying and ensuring that the organization complies with the laws, regulations, and other authorities applicable to the financial statements.

Every year, management provides a letter to the auditor acknowledging its understanding of these responsibilities.

Fraud risks

Primary responsibility for the prevention and detection of fraud rests with management and those charged with governance of the entity.

Management are the individuals with executive responsibility for the conduct of the entity's operations (e.g., the chief executive officer and chief financial officer).

Those charged with governance are the individuals with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, usually a board of directors or similar body.

Management should place a strong emphasis on fraud prevention (ensuring frauds do not have a chance to occur) and fraud deterrence (through the likelihood of detection and punishment). It should also foster an organizational culture of honesty and ethical behaviour.

Those charged with governance should provide oversight of management by, for example, taking steps to ensure management is not circumventing controls to manipulate financial results.

Fraud scenario 2

An engineering review of a recently constructed public facility determines that construction materials were lower quality than required under the contract. The organization paid the original contract price for the materials. Further investigation reveals that the materials were labeled as the material specified under contract despite being the lower quality material. Management's attempts to contact the vendor have been unsuccessful.

Impact

There will be impacts on the financial statements and the audit. The organization's processes found the potential fraud, but after the facility was completed. The auditor should consider the impact of management's controls to assess the quality of materials used in construction. If construction is a significant part of the organization's activities, there may be other facilities affected and the auditor should consider additional audit steps. The auditor should report this weakness in controls to the organization's management. Management should investigate the potential fraud. If the contractor was colluding with someone within the organization, the auditor will have to adjust the audit approach. This could include hiring experts to inspect facilities and provide estimates as to the useful life of the infrastructure.

A material misstatement in the financial statements may result because the facility may not last as long as originally expected, meaning that the value recorded should be written down to reflect a shorter useful life. Management will need to assess the impacts and adjust the building's value accordingly and the auditor will need to audit the new valuation.

Auditors' responsibilities

For all financial statement audits, the auditor's responsibility is to obtain reasonable, but not absolute, assurance about whether the organization's financial statements are:

1. Prepared in accordance with generally accepted accounting principles.
2. Free from material misstatement (a significant error or omission that, if uncorrected, could mislead users of the financial statements), whether due to error or fraud.

Auditors must consider the risk of fraud in the financial statements and maintain professional skepticism throughout the audit. Fraud risks are characterized as significant risks of material misstatement, meaning the auditor is required to obtain more persuasive evidence to support their opinion in areas where fraud risks have been identified.

There is an unavoidable risk that some material misstatements of the financial statements may not be detected by the auditor even though the audit is properly planned and performed. This is particularly true when material misstatements arise because of fraud. This is because fraud may involve sophisticated schemes to conceal it (e.g., forgery, deliberate failure to record transactions, or intentional misrepresentations made to the auditor).

Fraud is even more difficult to detect when accompanied by collusion since it can lead the auditor to believe that audit evidence is persuasive, even when it is false.

Assessing the risk of material misstatement due to fraud

In planning an audit, the auditor must assess the risk of fraud in an organization. An auditor will ask management about their:

- Assessment of the risk the financial statements may be materially misstated due to fraud.
- Processes for identifying and responding to fraud risks.
- Communications with those charged with governance of the organization about its processes for identifying and responding to fraud risks.
- Communications to employees regarding management's views on business practices and ethical behaviour.
- Knowledge of any actual, suspected, or alleged fraud affecting the organization.

The auditor must make similar inquiries of the organization's internal audit staff, if such a function exists.

The auditor must learn how those charged with governance oversee management's processes to prevent and detect fraud. The auditor must also ask those charged with governance about their knowledge of any actual, suspected, or alleged fraud affecting the organization.

The auditor must also evaluate the results of analytical procedures and consider any other information obtained in the planning of the audit for indications of fraud. Analytical procedures consist of comparisons of sets of financial and operational information to look for inconsistencies or changes from historical patterns.

Having conducted these inquiries and procedures, the auditor must assess the risk of material misstatement due to fraud. Canadian audit standards require auditors to presume that there are fraud risks related to revenue recognition and management override of controls. In both cases, the auditor must perform work to conclude on the level of risk and the impact on the audit work to be performed.

Revenue recognition principles state that revenue should be recorded when it is earned. Fraud may occur when revenues are recorded before being earned. For example, if an organization has received cash to deliver a service but has not yet performed that service, the revenue has not been earned.

Management override refers to the ability of executive level management to manipulate financial records and results. Through their position, they can influence estimates and accounting policy choices to achieve favourable financial reporting outcomes in the current year or in the future. They may also have the opportunity to perpetrate fraud by circumventing controls that might appear to be otherwise operating effectively. For example, management may create a fictitious journal entry to increase revenues that bypasses all the normal revenue processes (receiving an order, delivering the order, and invoicing the order).

When the auditor determines a risk of material misstatement due to fraud exists, they must evaluate the controls that address the risks, including how the design of the controls helps to lower the fraud risk and whether the controls are functioning as designed.

If the auditor identifies a misstatement in the financial statements and suspects fraud, the auditor should re-evaluate the implications of that misstatement, in particular the reliability of what management has told them.

If the auditor suspects the organization has been subject to fraud, the auditor must communicate it to the appropriate level of management on a timely basis. The auditor is not responsible for determining whether fraud has occurred, or for taking action to remediate the suspected fraud, nor are they responsible for preventing fraud in the future; that is management's responsibility.

In cases where suspected fraud involves members of the organization's management, the auditor should communicate those suspicions to those charged with governance.

In general, the auditor will only communicate frauds to external authorities when required by law or other regulation.

In cases where the auditor has identified significant deficiencies in internal controls during the audit, regardless of whether these deficiencies have resulted in a fraud or error, the auditor must report these deficiencies to those charged with governance.

Fraud scenario 3

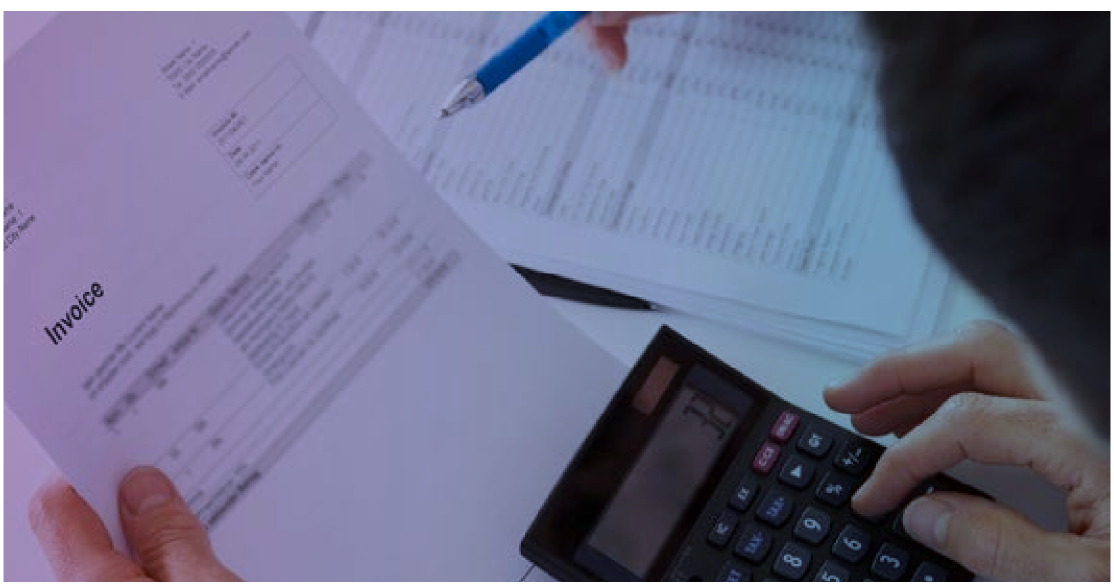
During a review of payments, the auditor notices that a vendor's name on a cheque is slightly different from the name on the purchase order and invoice. Further investigation reveals several payments have been made to the wrong name. After following up with the original vendor, the organization determines the payments have been made to a third party with no relation to the vendor and there is little chance of recovering the funds.

Impact

The organization's processes did not identify the different vendor's name on the cheque; it was identified by the auditor. The auditor will need to report the issue to management.

As with the other scenarios, management needs to investigate how this potential fraud occurred, whether other potentially fraudulent payments have been made, and if anyone in the organization was involved. The auditor will adjust their approach, including additional audit tests, depending on what management finds.

There may also be a material misstatement in the financial statements depending on the nature and extent of the payments. If the organization believed it was paying a legitimate invoice from a trusted vendor, and that vendor did not receive payment, the organization may still have a liability that is not recorded on its books. Depending on the amount of the unrecorded liability, there may be a material misstatement in the organization's financial statements that requires correction by management.



Source: Shutterstock

Fraud risk questionnaire

As part of the planning of the audit of government's summary financial statements for 2022/23, the Office of the Auditor General sent a fraud risk management questionnaire to 23 significant public sector organizations. They included six health authorities, five commercial Crown corporations, four service Crown corporations, four colleges or universities, two school districts, one authority, and one society.

The questionnaire was designed to give the office and its component auditors an initial picture of fraud risk management practices. As discussed above, management and those charged with governance at these organizations have the primary responsibility for the prevention and detection of fraud.

The responses of these organizations have been summarized and provided below. These responses are unaudited and represent the views of the responding organizations.

The organizations' auditors will perform further work to determine the reliability of the information presented in the financial statements. In addition, the office will perform audit work to determine whether there are any impacts on the summary financial statements.

Appendix A on page 18 includes the questionnaire. Appendix B on page 22 lists the organizations that received and responded to the questionnaire. Appendix C on page 23 has a table summarizing the responses to each question.

Source: Shutterstock

Understanding fraud risk

Effective and comprehensive fraud management programs require an understanding of the nature and extent of the fraud risk the organization faces. To start, our questionnaire asked executives about the types of fraud their organization may have encountered and their perceptions of the risk of fraud. The following table summarizes the results.

Types of fraud	Has your organization been affected by this type of fraud in the past 12 months?		How would you describe your organization's vulnerability to this type of fraud? (High, moderate, or low.)		
	Yes	No	High	Moderate	Low
Theft of physical assets	43%	57%	4%	22%	74%
Misappropriation of company funds	22%	78%	0%	30%	70%
Information theft	17%	83%	17%	26%	57%
Regulatory or compliance breach	17%	83%	0%	26%	74%
Internal financial fraud	17%	83%	0%	22%	78%
Vendor, supplier, or procurement fraud	9%	91%	4%	22%	74%
Corruption and bribery	4%	96%	4%	4%	92%
Money laundering	4%	96%	0%	4%	96%
Intellectual property theft	0%	100%	0%	30%	70%

In all, 14 organizations (61 per cent) said they had been affected by a form of fraud over the past year while nine (39 per cent) had not.

Seven organizations (30 per cent) believed their vulnerability was low for all forms of fraud. Four respondents (17 per cent) believed their organizations were highly vulnerable to at least one type of fraud.

We asked how vigilant organizations felt they needed to be with respect to fraud. Seventeen organizations (74 per cent) reported they needed to be very vigilant and six (26 per cent) thought they only needed to be somewhat vigilant.

While almost 60 per cent of organizations say they have been affected by fraud in the past year, only 18 per cent of organizations reported a high vulnerability to any type of fraud. Organizations may have a gap between their perceived vulnerability to fraud and their actual experience.

Fraud risk governance

Organizations were asked what they have done to assign internal responsibility for fraud risk management and establish policies to address fraud risks.

The questionnaire asked if the boards of directors (or equivalent) have assigned responsibility for fraud risk management to a senior management member. Twenty-one (91 per cent) of the 23 respondents answered "yes."

Regarding fraud risk management policies, 14 organizations (61 per cent) said they have such a policy while eight others (35 per cent) said that they addressed fraud risk in various other policies. One organization reported having no policies addressing fraud risk management.

Eighteen organizations (78 per cent) reported they had provided fraud risk training to staff.

Assessing fraud risk

Risk assessments help to identify the potential and severity of risks faced by an organization. They also help management evaluate how well they are addressing risks. We asked whether organizations had a formal, ongoing fraud risk assessment process to identify and document the likelihood and impact of fraud.

Fourteen organizations (61 per cent) reported they have ongoing fraud risk assessment processes while nine (39 per cent) did not.

Respondents who answered yes were asked how often they conduct risk assessments. Two organizations conduct assessments quarterly, eight do so annually, one does it every other year, and three responded with "other."

Nine organizations reported not having a regular fraud risk assessment in place. These organizations all indicated they have some practices in place to assess fraud.

Fraud prevention, detection, and investigation

Preventative controls help to keep frauds from happening (e.g., by restricting access to accounting systems and requiring authorizations for transactions). Detective controls, such as bank reconciliations, help to determine if frauds have occurred.

Organizations that conducted risk assessments were asked whether they see if their internal controls are working effectively in response to their findings. Of these 14 organizations, 12 answered yes and two answered no.

We then asked whether these organizations had made any adjustments to their internal controls to address risks identified through their fraud risk assessments. Nine of the 14 organizations answered yes and five answered no.

The nine organizations that had not conducted fraud risk assessments were asked how they know whether their internal controls are strong enough to address risks of financial and non-financial fraud. They reported they assessed the effectiveness of internal controls through combinations of policies and processes, internal audits, and enterprise risk management.

We asked organizations how they ensure staff follow their fraud prevention processes. Twenty organizations (87 per cent) reported they had established a monitoring function to ensure staff were complying with controls. Three (13 per cent) reported they had not done this.

We also asked whether organizations had assessed the need for a hotline to report instances of suspected fraud. Nineteen (83 per cent) respondents answered yes and of those, 17 have now established a fraud hotline.

When a fraud loss occurs, policies and procedures can guide an organization's response. Twenty-one organizations (91 per cent) reported having such policies and procedures in place.

If organizations answered that they have investigative policies, we asked whether the policies included directions about if or when police investigators should be notified. Of the 21 organizations that have policies, 16 (76 per cent) said they included instructions for calling the police.

Monitoring and evaluating the fraud risk management program

We asked organizations if they reported all incidents of fraud and corrective actions to those charged with governance for review. Twenty-two (96 per cent) answered that they did, while one did not.

To complete the fraud risk management circle, we asked whether the organization had scheduled regular evaluations of their fraud risk management program to determine whether risks are being effectively identified and managed. Thirteen organizations (57 per cent) reported that they have regular evaluations of their fraud risk management program while 10 (43 per cent) reported they do not.

What we do with this information

The fraud risk questionnaire responses are general in nature and we have not validated them. They indicate areas where the organization's auditor may want to ask more questions and do some testing.

We will use the overall results to:

- Inform our audit planning for the 2022/23 summary financial statements.
- Test whether some processes are in place and working effectively.

Our internal teams directly audit five of the organizations and component auditors audit the remainder. Auditors will use the information to assist in their risk assessments for their audits and to determine what impact, if any, the risk assessment may have on their audit.

Component auditors are required to communicate to the Office of the Auditor General:

- Any significant risks, including fraud risks, identified when they perform risk assessment procedures, along with their responses to those risks.
- Suspected or detected fraud involving management, employees who play significant roles in internal control, or where the fraud results in a material misstatement of the financial information of the entity.

The auditor general's office will consider information received from the auditors of these organizations in our audit of the summary financial statements and look for potential patterns that may have an impact on our risk assessment.

Source: Shutterstock

Appendix A: Fraud risk questionnaire

Understanding your organization

To begin, we would like to ask you a few questions about your organization.

1. Type of organization

2. Main office location

3. Size of organization – number of employees, number of contractors

4. Organization annual operating budget

Understanding your fraud risk

This next set of questions are about types of fraud risk and perceptions of fraud risk as they may relate to your organization.

	5. Has your organization been affected by this type of fraud in the past 12 months?		**6.** How would you describe your organization's vulnerability to this type of fraud?		
Types of fraud	Yes	No	High	Moderate	Low
Theft of physical assets					
Misappropriation of company funds					
Information theft					
Regulatory or compliance breach					
Internal financial fraud					
Vendor, supplier, or procurement fraud					
Corruption and bribery					
Money laundering					
Intellectual property theft					

7. Overall, how vigilant does the organization need to be to potential fraud?

- ☐ Very vigilant
- ☐ Somewhat vigilant
- ☐ Fraud in my organization is very unlikely
- ☐ Don't know

Managing fraud risk – leadership and policy

Next, we would like to ask you some questions about fraud risk management leadership and policy in your organization.

8. Has senior executive assigned responsibility for fraud risk management to a member of senior management in your organization?

- ☐ Yes
- ☐ No

9. In terms of fraud risk management policy, please select the answer that best reflects your organization's situation:

- ☐ My organization has established a policy devoted to fraud risk management. [Go to Q9a]
- ☐ My organization has not established a policy devoted to fraud risk management, but a number of our organizational policies refer to fraud risk management.
- ☐ My organization does not have any policies that refer to fraud risk management.

9a. [If answer to Q9 first bullet] Please attach a copy of your organization's policy devoted to fraud risk management.

10. Has your organization assessed the need for staff to take fraud training?

- ☐ Yes
- ☐ No

Managing fraud risk – assessment, controls and evaluation

Thorough risk assessments that identify actual risks faced by an organization provide useful information the organization can use to design effective programs with controls to reduce the risk of fraud. It also helps management to evaluate how much risk they can tolerate.

11. Has your organization implemented a formal process to identify and document the likelihood and impact of fraud risks that may impact the organization on an ongoing basis?

- ☐ Yes
- ☐ No

12. [If answer to Q11 is Yes] How often are fraud risk assessments conducted? [Select all that apply]

- ☐ Monthly
- ☐ Bi-monthly
- ☐ Quarterly
- ☐ Annually
- ☐ Bi-Annually
- ☐ Other [Specify...]

13. [If answer to Q11 is Yes] Please describe the process your organization follows to prepare fraud risk assessments.

14. [If answer to Q11 is Yes] Please attach a copy of your organization's most recent fraud risk assessment.

This next set of questions relates to fraud prevention. It is better to prevent fraud than to detect it after the fact. Controls can be added to organizational systems and processes to minimize the risk of fraud in various ways, including: IT system controls, segregating duties among employees, and supervisor review and approval of staff and contractor work.

15. [If answer to Q11 is Yes] Does your organization assess the operational effectiveness of internal controls in response to the results of formal fraud risk assessments?

☐ Yes ☐ No

16. [If answer to Q11 is Yes] Has your organization adjusted internal controls to mitigate risks identified through formal fraud risk assessments?

☐ Yes ☐ No

12. [If answer to Q11 is No] How does your organization determine whether internal controls are sufficient to mitigate the risk of financial and non-financial fraud?

This next set of questions relates to fraud detection. A strong organizational compliance monitoring and reporting function, combined with an anonymous hotline to report non-compliance, strengthens early fraud detection.

13/17. Has your organization established a compliance monitoring and reporting function (e.g., one or more staff who have been tasked with monitoring controls and reporting signs of non-compliance and fraud)?

☐ Yes ☐ No

14/18. Has your organization assessed the need for a fraud hotline to report incidents of non-compliance or fraud?

☐ Yes ☐ No

[If answer to Q14/18 is Yes] Has your organization established a fraud hotline based on the results of the needs assessment?

☐ Yes ☐ No

15/19/20. What formal reports on fraud risk management control activities are provided to senior executive?

This final set of questions is about responding to fraud when it is suspected and taking corrective actions. An effective fraud investigation, correction and evaluation function helps organizations recover from fraud losses and strengthen their practices in a thorough and timely manner.

16/20/21. Has your organization established policies and procedures to follow when potential incidents of fraud are identified?

☐ Yes ☐ No

[If answer is Yes to question above] Do the policies and procedures include direction regarding if, when and how police are to be called?

☐ Yes ☐ No

17/21/22. Are all incidents of fraud and corrective actions reviewed by senior executive and senior management?

☐ Yes ☐ No

18/22/23. Has the organization established a schedule to perform periodic evaluations to determine whether fraud risks are being effectively identified and managed?

☐ Yes ☐ No

Conclusion

Thank you for taking the time to complete this questionnaire. The responses you have provided are valuable. We would like to give you an opportunity to provide any additional information or comments about fraud risk management in your organization that you feel is important for us to know.

Appendix B: List of organizations

Name of Organization	Type of Organization
BC Housing Management Commission	Service Crown
BC Pavilion Corporation	Service Crown
BC Transportation Financing Authority*	Authority or commission
British Columbia Hydro and Power Authority*	Commercial Crown
British Columbia Institute of Technology	Colleges and institutes
British Columbia Liquor Distribution Branch	Commercial Crown
British Columbia Lottery Corporation	Commercial Crown
British Columbia Transit	Service Crown
Columbia Power Corporation*	Commercial Crown
Community Living British Columbia	Service Crown
Fraser Health Authority	Health authorities
Insurance Corporation of BC	Commercial Crown
Interior Health Authority	Health authorities
Northern Health Authority	Health authorities
Providence Health Care Society	Society
Provincial Health Services Authority*	Health authorities
SD 36 (Surrey)	School districts
SD 41 (Burnaby)	School districts
Simon Fraser University	Universities
University of British Columbia*	Universities
University of Victoria	Universities
Vancouver Coastal Health Authority	Health authorities
Vancouver Island Health Authority	Health authorities

* The Office of the Auditor General is the auditor for these organizations.

Appendix C: Summarized responses

The question numbers correspond to the question numbers in Appendix A. Where question numbers have been skipped, this is either because the question related to contextual information, perceptions of fraud (presented above) or asked for the organization to provide copies of documents related to their answers.

Fraud risk governance

Question 8: Has senior executive assigned responsibility for fraud risk management to a member of senior management in your organization?

Yes	No
91%	9%

Question 9: In terms of fraud risk management policy, please select the answer that best reflects your organization's situation:

My organization has established a policy devoted to fraud risk management.	My organization has not established a policy devoted to fraud risk management, but a number of our organizational policies refer to fraud risk management.	My organization does not have any policies that refer to fraud risk management.
61%	35%	4%

Question 10: Has your organization assessed the need for staff to take fraud training?

Yes	No
78%	22%

Assessing fraud risk

Question 11: Has your organization implemented a formal process to identify and document the likelihood and impact of fraud risks that may impact the organization on an ongoing basis?

Yes	No
61%	39%

If you answered yes to question 11, how often are fraud risk assessments conducted?

Monthly	Bi-monthly	Quarterly	Annually	Bi-annually	Other
0%	0%	14%	57%	7%	22%

Fraud prevention, detection, and investigation

If you answered yes to question 11, does your organization assess the operational effectiveness of internal controls in response to the results of formal fraud risk assessments?

Yes	No
79%	21%

If you answered yes to question 11, has your organization adjusted internal controls to mitigate risks identified through formal fraud risk assessments?

Yes	No
64%	36%

Question 13: Has your organization established a compliance monitoring and reporting function (e.g., one or more staff who have been tasked with monitoring controls and reporting signs of non-compliance and fraud)?

Yes	No
83%	17%

Question 14: Has your organization assessed the need for a fraud hotline to report incidents of non-compliance or fraud?

Yes	No
83%	17%

If you answered yes to question 14, has your organization established a fraud hotline based on the results of the needs assessment?

Yes	No
85%	15%

Question 16: Has your organization established policies and procedures to follow when potential incidents of fraud are identified?

Yes	No
91%	9%

If you answered yes to question 16: do the policies and procedures include direction regarding if, when and how police are to be called?

Yes	No
76%	24%

Monitoring and evaluating the fraud risk management program

Question 17: Are all incidents of fraud and corrective actions reviewed by senior executive and senior management?

Yes	No
96%	4%

Question 18: Has the organization established a schedule to perform periodic evaluations to determine whether fraud risks are being effectively identified and managed?

Yes	No
57%	43%

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